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SUBJECT: GERMANY SUPPORTS NARROW SANCTIONS ON IRAN

REF: A. BERLIN 2593

[1](#)B. BERLIN 1495

[1](#)C. 2005 BERLIN 1745

[1](#)D. BERLIN 649

Classified By: Minister-Counselor for Economic Affairs Robert F. Cekuta
, for reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: Recent meetings with German government officials and business associations show continued willingness to support targeted sanctions concerning Iran's nuclear and missile programs, but at the same time reflect little enthusiasm for pursuing broader sanctions against Iran. Officials assert the current international tensions surrounding Iran and its nuclear program continue to affect negatively German businesses' willingness to pursue major new trade deals with Iran. Government officials and Middle East trade specialists at the Association of German Chambers of Commerce and Industry (DIHK) state German companies would comply with sanctions, regardless of how broad. German officials' opinion is not uniform regarding the effect on companies -- and taxpayers -- if broad sanctions were implemented. German officials highlight increasing cooperation with UAE to tighten controls at ports, although these officials imply smuggling between Iran and the UAE would continue to be a problem. End Summary.

Germany-Iran Trade; Latest Deals

[1](#)2. (C) Germany's total trade with Iran through the first eight months of 2006 totaled 2.96 billion euro, an eleven percent decrease from the record level of 3.4 billion in [1](#)2005. German exports to Iran were worth 2.37 billion euros, compared to 2.7 billion euros in 2005. Hans-Dieter Spohn, Ministry of Economics' Director for Arab Countries and Iran, speculated trade with Iran for 2006 could show a decrease of approximately 20 percent from 2005. He said the majority of German companies are uncertain about pursuing new business deals in Iran, given the current international situation. He also noted that there is a movement in Iran to "buy Iranian" and Tehran has made efforts over the past year to award contracts to domestic companies. Spohn reported Germany has not organized recently any official trade delegations to Iran with high-level government participation, nor have there been meetings of the bilateral German-Iranin Economic Council.

[1](#)3. (C) When asked about press reports Iran recently awarded contracts to German companies, one of which was a \$450 million railroad contract with Siemens, Spohn said he had not heard about the deal. (Note: Post is trying to confirm independently the status of this agreement. End Note.)

Spohn did not dispute, however, that German companies remain a primary source of equipment for large infrastructure projects. On another potentially large Iranian infrastructure contract, MFA's Desk Officer for Iran, Deike Potsel, said Lufthansa Consulting did a site visit of Abadan International Airport, where they were asked to provide a development plan for upgrading the airport. She did not know whether Lufthansa Consulting had subsequently provided any such plan.

14. (C) Discussing Germany's regional trade relationships and preventing third-country proliferation, Spohn mentioned Germany's recent efforts to help the UAE tighten port security, noting a recent government delegation to UAE included a representative of BAFA (Federal Agency for Economy and Export Controls). Nevertheless, Spohn thought smuggling would remain a problem given the proximity to Iran and the Iranian presence in the UAE. He thought despite adverse feelings toward President Ahmadinejad, Iranians in the UAE maintain close connections to Iran and will continue to generate international trade. Spohn cited a figure of USD 200 million in capital flowing annually between Iranians living in the UAE and their businesses and families in Iran.

Sanctions and Trade

15. (C) Spohn reiterated Germany's support for narrowly-defined sanctions that target Iran's nuclear and missile program, and believed German companies would respect and adhere to any sanctions regime reached in the UN Security Council. He, like other German officials, argues against a broader sanctions regime, saying it would only heighten

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tensions and lead to considerably higher world oil prices. Should such a sanctions regime be implemented, he speculated Iran would use its naval forces and anti-ship missile batteries to disrupt trade moving through the Strait of Hormuz.

16. (SBU) Business representatives echoed the German government's confidence that German companies would adhere to sanctions against Iran. Felix Neugart, Director for North Africa and Middle East at DIHK, also suggested international tensions caused German companies to rethink doing business in Iran. He thought most trade currently taking place with Iran involves German companies that have offices already in-country or existing contracts, rather than companies seeking new deals. On the theoretical question of circumventing sanctions, Neugart speculated companies would weigh several factors before deciding whether they would continue to sell to Iran. First, companies with operations in Iran would be in a better position to know how to move goods into and out of the country and be familiar with the bureaucracies involved with trade. Second, companies with subsidiaries in the U.S. would be even more diligent in observing sanctions rules, as German companies are genuinely concerned about the effects of such a decision on their operations in the U.S. Neugart said he constantly receives phone calls from German firms inquiring about U.S. export laws' requirements. Business people have also asked him about a U.S. state's ability to pursue legal action against companies that violate export laws or sanctions.

Financing Trade with Iran

17. (C) Christian Mayer, deputy director of the German Finance Ministry's Division for Transactions and Prevention of Money Laundering and Terrorism Financing, said there is concern UNSC sanctions against Iran might "unfairly disadvantage" Germany and German firms. He noted Iranian entities are deeply indebted to German firms; if sanctions are applied

without provisions for firms to collect their debts from Iran, the German economy may suffer more than others. Mayer stated that because of the U.S. trade embargo, UNSC sanctions against Iran would have practically no effect on the U.S. economy, while Germany would face substantial costs. The German Government would bear the bulk of these costs in the event of Iranian debt defaults, because of Government issued export credit guarantees covering German business in Iran. (Note: Refs B and C contain additional information on German export credit guarantees. End Note.) Ninety percent of the German credits are guaranteed by the German Finance Ministry.

(Note: Hermes recently adjusted the amount of coverage it will offer firms doing business in Iran from 90 to 85 percent, due to the increased political risk. The German government also led an effort in the OECD to raise the risk premium for businesses dealing with Iran. End Note.) Mayer surmised the German Government could be held responsible for billions of euros of Iranian debt default payments, depending on the precise terms of the sanctions regime. He did not specify the total amount of potential payments, but stressed they would be a considerable burden for German taxpayers.

18. (C) Mayer too said any sanctions regime against Iran should be targeted against the regime and not against the general populace (refs A and B), but he did not offer suggestions for what should be sanctioned. He voiced concern that because Germany is not a permanent member of the UNSC, its views may not be adequately represented in Security Council deliberations on sanctions. The Finance Ministry's goal, he said, is for any sanctions to be fair and equal for all participating states.

Comment

19. (C) While Germany would implement UN Security Council sanctions to thwart Iran's attempt to obtain nuclear weapons and advance its missile program, German officials and businesses also see a large, growing market in Iran with numerous potential foreign suppliers to whom they would lose market share. Officials at all levels of the German government state sanctions need to be "targeted," not broad. Mayer's comments about German firms suffering more than U.S. ones probably reflect what others think, but have refrained from saying. We push back as appropriate, in some cases noting German firms afraid of being hurt by UN sanctions have

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not appeared overly concerned about any advantages they enjoyed vis a vis U.S. firms due to our long-standing sanctions.
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